



# Arizona Treasurer's Report

## State Treasurer Jeff DeWit

### Second Quarter FY2018

The Arizona State Treasurer's Office protects taxpayer money by serving as the state's bank, record's administrator, and fiduciary agent, providing investment management, financial information and services. The office currently manages Arizona's more-than \$14.9 billion investment portfolio which includes moneys for State Agencies, Local Governments and the Permanent Land Endowment Trust Fund. The second quarter of the fiscal year, which ended December 31, 2017, brought about several great accomplishments, these accomplishments are exemplified in our increased distributions.

**State Agency Funds**— Halfway through fiscal year 2018, state agency investment funds have distributed 35% more earnings year-over-year. This performance has been shown in the yields we report for each fund, where we have strategically managed to take advantage of the fast growth in short-term interest rates.

**Local Government Investment Pools**— Treasurer DeWit is proud to announce that the office has distributed more than twice as much money to our local governments than at this same point last year. So far, the LGIP pools have distributed earnings of \$17,198,802 compared to \$7,332,072 in fiscal year 2017.

**Looking Forward**— In past meetings and reports we've discussed our short duration strategy which we've implemented to take advantage of expected rising rates; the returns and distribution growth we've seen are a direct result of that strategy paying off. Going forward, with this strategy we still expect to see rising rates which will continue to crease earnings.

#### ENDOWMENT PERFORMANCE

The PLETF continues to see strong returns thanks to the rising stock market and diversified asset mix of US stocks and bonds. Endowment returns have reached **6.79%** for the first 6 months of the fiscal year. With several periods of strong performance, the PLETF is booking some of those gains with a January rebalance.

SAFETY

LIQUIDITY

YIELD

"It is great that we have more than doubled investment earnings for our local government participants this year. This is due to our highly experienced team recognizing the rising interest rate environment by keeping our funds short in duration so we can reinvest in the higher rates soon after the Federal Reserve raises rates," said State Treasurer Jeff DeWit.

#### ENDOWMENT DISTRIBUTIONS

At the end of each December we revisit the past 5 years of performance and calculate what the beneficiary distributions will be for the next fiscal year. Our office is proud to announce we will be distributing more money to the beneficiaries than ever before, with FY19 distributions of \$345,423,975.



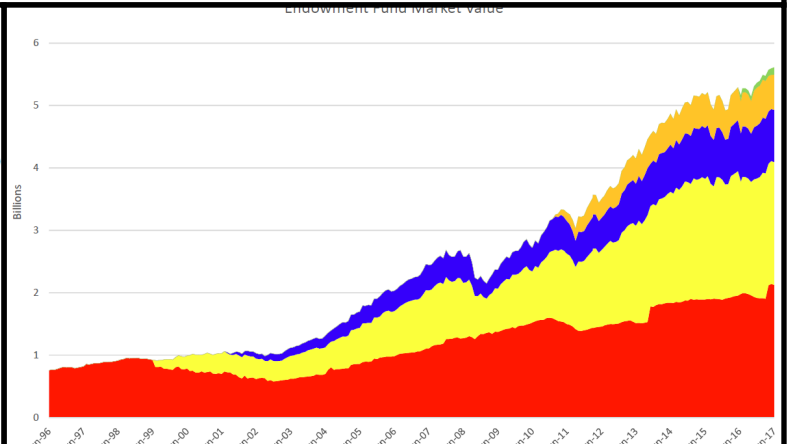
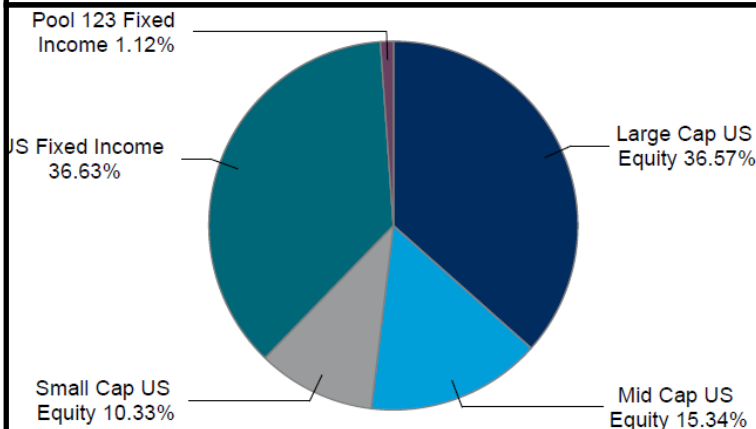
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### The Permanent Land Endowment Trust Fund

#### Historic Achievements:

December 31, 2017 the PLETF reached a new all-time high Market Value of  
**\$5,884,225,243**



#### Did you know?

The PLETF had more than **\$3 billion** in unrealized gains at the end of December 2017. These earnings show how our portfolio has a long-term investment horizon and looks to invest money without the need to sell many assets for monthly distributions.

#### Endowment Facts & Statistics (12/17)

- Avg. Annual Return since inception: 6.58%<sub>(07/99)</sub>
- The Endowment has continued its success, reporting 6.79% returns in the first half of FY18. The 2017 calendar year total returns were 12.31%.
- Thanks to the growth of the US stock market, the PLETF saw large growth in equity assets. Because of this, the fund began rebalancing closer to its 60/40 stock-to-bond target allocation.
- Distributions for the fiscal year have totaled \$159,065,399 and by year-end will be the most ever distributed from the fund. With the new FY19 distribution calculation, that record won't stand very long.
- The portfolio manager for the endowment is Tim White. Tim has been managing the PLETF since the introduction of equities to the portfolio in 1999.

**"With another record high, we rebalanced the portfolio, selling into a rising stock market at the end of January, booking gains and protecting the earnings for the beneficiaries."**

**-Treasurer  
Jeff DeWit**



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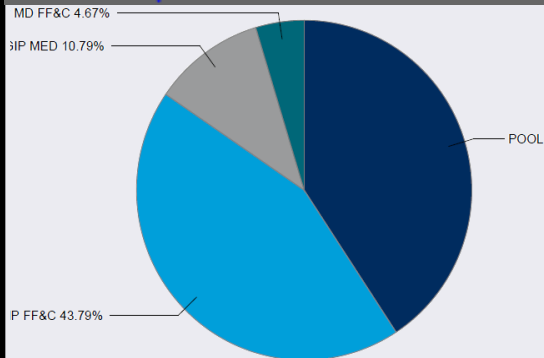
### Local Government Investment Pools

#### Pool 5 & 7

- ◆ Short-term, money market type investments.
- ◆ Both pools are very liquid with a weighted average life of 37 days and 77 days, respectively.
- ◆ Pool 5 carries highest S&P Rating at AAAf. December 2017 Yield: 1.24%
- ◆ Pool 7 only invests in securities backed by the full faith & credit of the US Government. December 2017 Yield: 1.13%
- ◆ Yields have consistently grown in-line with current market trends thanks to our short duration strategy.



Est. 1980



**December AUM:  
\$3,255,507,252**

#### 100% Liquidity To Participants

Eligible government participants include cities and towns, counties, special taxing districts, municipal corp., community and technical colleges, and four year universities.

#### Current LGIP participants include:

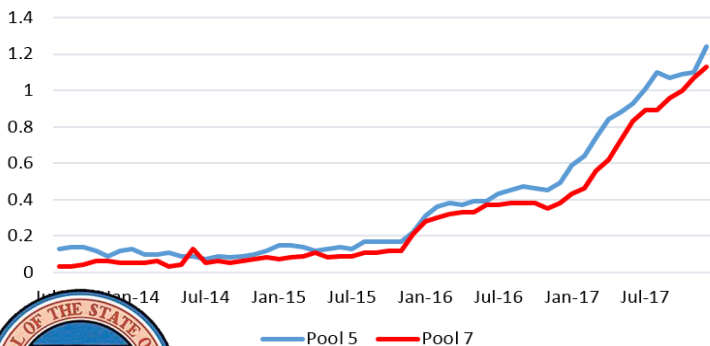
- 82 Cities & Towns
- 48 Special Taxing Districts
- 11 Counties
- 7 Community Colleges & Universities
- 5 State Agencies
- State Operating Fund

#### Pool 500 & 700

- ◆ Medium-term bond funds. Both funds utilize a floating NAV
- ◆ Pool 500: 100% of assets are investment grade. Effective duration: 1.22 years
- ◆ Pool 700 only invests in asset back by the full faith & credit of the US Government. Effective duration: 1.91 years.
- ◆ Due to differences in credit-ratings of underlying investments, Pool 500 consistently provides a higher yield with slightly additional risk.

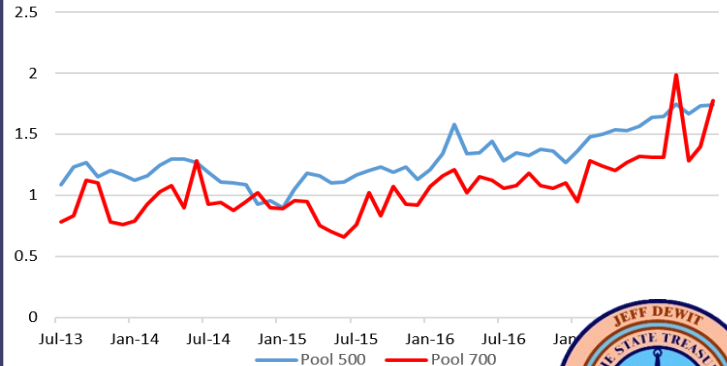


Yield



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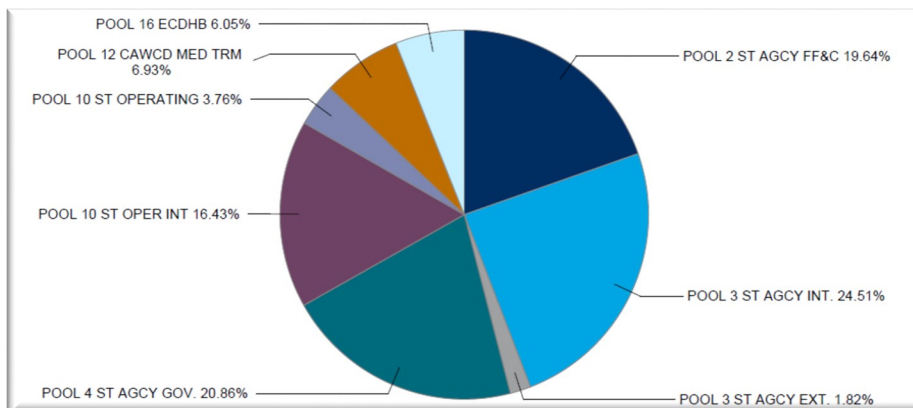
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### State Agency Investment Pools

#### SUMMARY

The state agency investment pools operate to invest the State's money. The source of the investment deposits can range from tax revenues, aggregate state agency moneys, separately managed agency accounts or other miscellaneous fees. **Total State Assets: \$5,760,335,441.**



#### MONTHLY YIELD

**As-of Dec. 31, 2017:**

|            |       |
|------------|-------|
| ◇ Pool 2:  | 1.34% |
| ◇ Pool 3:  | 1.54% |
| ◇ Pool 4:  | 1.41% |
| ◇ Pool 9A: | 1.34% |
| ◇ Pool 10: | 1.57% |
| ◇ Pool 12: | 1.74% |
| ◇ Pool 16: | 1.95% |



### MARKET COMMENTARY FROM OUR CIO

As a manager of public monies we never forget that the money we manage belongs to the Arizona Taxpayer, and we are charged to protect and manage those funds. Managing the funds requires us to balance risks with returns. At the end of 2015 The Federal Open Market Committee (FOMC) recognized that the US economy had been steadily improving and it was time to begin implementing slow and measured rate increases. Since that time, the Fed has raised the Federal Funds rate from 0.125% to 1.42% as of the December 2017 meeting. We agree that the economy is improving, with unemployment at very low rates and the potential for inflation becoming apparent, we anticipate the FOMC will continue to raise rates throughout this year to a target rate at year-end between 1.92% and 2.17%. With the increase in the Fed Funds rate we expect see the yield of our fixed income funds continue to improve.

-Patty Humbert, Chief Investment Officer



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